

South Korea: Outlook rocked by martial law declaration

In a stunning political event overnight, South Korea's president declared martial law for the first time since 1979. Later, the National Assembly voted to block the decree and the cabinet agreed to rescind the order. We see the uncertainty surrounding the economy and politics remaining high and likely to dampen sentiment if the situation persists



Martial law decreed, then rescinded - what is going on?

In a stunning political event overnight, South Korea's president declared martial law for the first time since 1979. The National Assembly then voted to block the decree and the cabinet agreed to rescind the order.

The government and financial authorities announced that they would provide unlimited liquidity to the market until it returned to normal. Korean financial markets will open as usual and there will be an extraordinary meeting of the Monetary Policy Committee this morning. We think the Bank of Korea will not make any rate decision today but will likely deliver messages that they will continue

to work to stabilize the financial markets. The KRW went up to 1440 overnight but came back down to 1417. We see a high probability of intervention by the authorities.

Martial law itself has been lifted but this incident creates more uncertainty in the political landscape and the economy. Now the opposition party has called on President Yoon to resign, but it is not clear what the president will do. He has cancelled a meeting scheduled for today.

We are concerned that these events could impact South Korea's sovereign credit rating, although this is uncertain at this stage. However, this is a scenario that could happen. At this stage, we do not expect any changes to the ratings themselves as we do not see the situation escalating further. However, the situation is quite fluid, and it is possible that the rating outlook could change.

The impact on the economy will also depend on how the situation evolves from here. In the wake of the last presidential impeachment, consumer and business sentiment took a significant hit and economic activity slowed.

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